

DOMINION TAR & CHEMICAL COMPANY, LIMITED

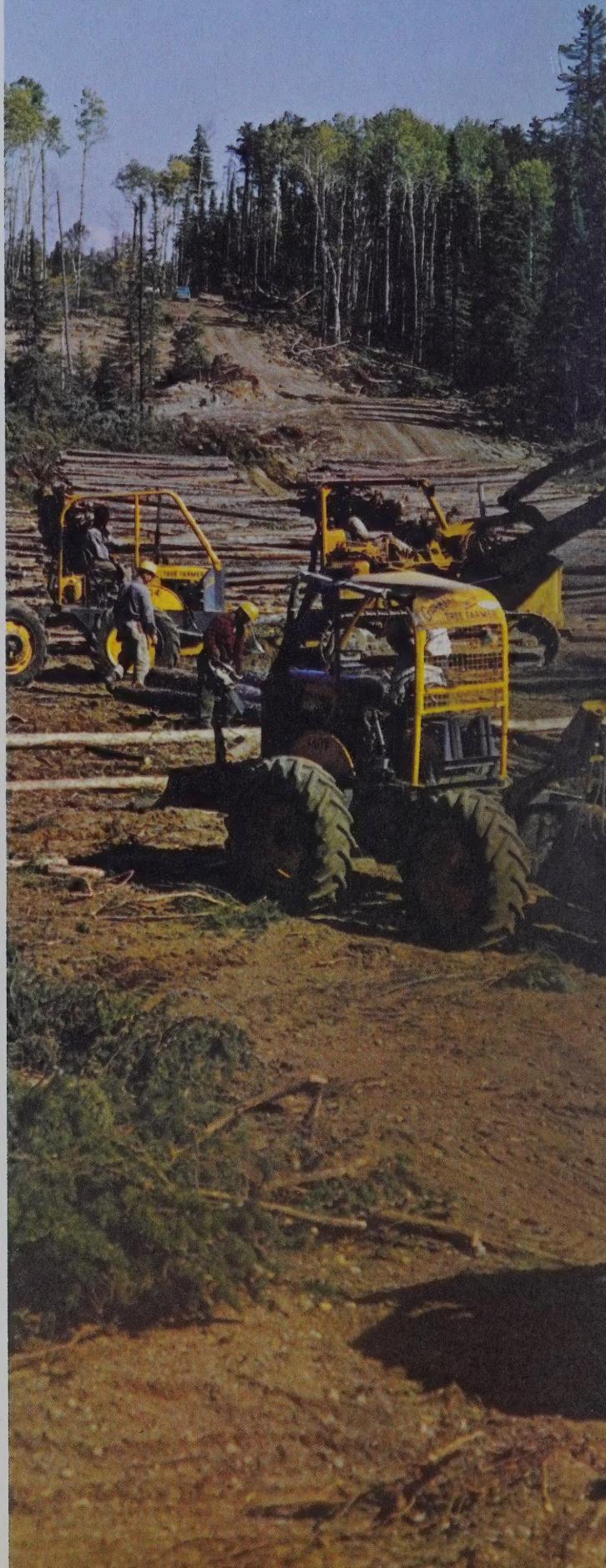
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nnual report 1963

DOMTAR



Pulpwood harvesting is becoming more and more mechanized. In this photograph, taken in DOMTAR's Nipigon, Ont., limits, we see a log collection point called a "Landing". Trees previously felled and branched are skidded to the Landing by rubber-tired "Skidders". The tree lengths are "bucked" by power saws into eight or 16-foot lengths. These are then loaded onto truck-trailer units for transport to the edge of the water for delivery to the mill by river drive or else directly to the mill.





*Central Research Laboratories and pilot plant situated
at Senneville, Que., 20 miles west of Montreal.*



TO ALL SHAREHOLDERS AND EMPLOYEES:

MAR 12 1964

Senior union and senior management personnel at the second annual DOMTAR labour-management conference generally accepted the principle that, while labour and management would continue to negotiate vigorously wages and other benefits, both employees and shareholders would gain in the long run *only* by increased efficiency.

Since 1961, the first year of operations of DOMTAR as it is presently constituted, the Company's sales have increased by \$26,952,000 or 8.2%, while total salaries and wages during the same period have shown an increase of \$7,494,000 or 9.0%. These increases have only been made possible by the expenditure of large sums for new capital assets, including new plants and more modern machinery and equipment, and by improvements in efficiency, which have resulted in average dollar sales of \$19,778 per employee in 1963 as compared with \$18,877 per employee in 1961. The Company's activities have also provided more total employment, as in 1963 there was an average of 17,831 employees in the organization (exclusive of woods workers) an increase of 577 employees or about 3½ %. The increase in the operating profits of the Company was only \$944,000 or 1.7%. To some extent the smallness of this figure is due to the fact that there is frequently a time lag between the expenditure of funds on new capital assets and the realization of a satisfactory level of operating profits from such expenditures.

It has been said that in the operation of a Canadian business it is not necessary to make serious errors in judgment for an otherwise successful venture to become unprofitable; it is only necessary to maintain the *status quo*.

We, in DOMTAR, have no intention of being satisfied with maintaining the *status quo* and we do have every intention of improving our efficiency. To this end, we are continuing to make increasing funds available for research, for labour-saving devices and for modern plants and equipment, and the employees throughout the organization are contributing determination and a willingness to adapt to change.



Les actionnaires qui préféreraient recevoir leur rapport en français n'ont qu'à en aviser le Secrétaire de Dominion Tar & Chemical Company, Limited.

Highlights	1963	1962
Net Sales.....	\$352,657,325	\$343,975,650
Net Earnings.....	\$ 20,832,234	\$ 20,717,046
Earnings per Common Share.....	\$ 1.41	\$ 1.40
Common Shares Outstanding.....	14,562,200	14,562,200
Dividends per Preference Share — Annual Rate.....	\$ 1.00	\$ 1.00
Dividends per Common Share — Annual Rate.....	\$.80	\$.80
Dividends Paid.....	\$ 11,949,760	\$ 11,805,760
Outlays on Land and New Buildings, Plant and Machinery.....	\$ 19,379,166	\$ 26,699,936
Book Value per Common Share.....	\$ 13.85	\$ 13.26
Number of Preference Shareholders.....	1,604	1,607
Number of Common Shareholders.....	39,906	37,296
Number of Employees — Average exclusive of woods workers.....	17,831	17,489*
Wages and Salaries.....	\$ 90,521,388	\$ 87,578,876*

*Adjusted

DIRECTORS AND OFFICERS

Directors

deGaspe Beaubien, C.B.E., *Montreal*
George W. Bourke, *Montreal*
*C. Gordon Cockshutt, *Brantford*
Ralph W. Cooper, *Hamilton*
*H. Roy Crabtree, *Montreal*
Shirley G. Dixon, Q.C., *Montreal*
George H. Dobbie, *Galt*
Raymond Dupuis, Q.C., *Montreal*
J. E. L. Duquet, Q.C., *Montreal*
Hon. Geo. B. Foster, Q.C., *Montreal*
*P. M. Fox, *Montreal*
C. L. Gundy, *Toronto*
Roger T. Hager, *Vancouver*
*W. N. Hall, *Montreal*

*Members of the Executive Committee, E. P. Taylor, C.M.G., Chairman

Officers

E. P. Taylor, C.M.G., *Chairman of the Board*
W. N. Hall, *President*
W. E. Adkins, *Vice-President*
R. M. Collins, *Vice-President*
C. M. Fellows, *Vice-President*
R. E. Kirbyson, *Vice-President*
H. E. Mason, *Vice-President*
W. H. Palm, *Vice-President*

W. R. Spence, *Vice-President*
E. A. Thompson, *Vice-President*
J. G. Wyllie, C.A., *Vice-President — Finance*
S. A. Kerr, C.A., F.C.I.S., *Secretary and Treasurer*
W. J. Strain, *Comptroller*
C. A. Brooke, A.C.I.S., *Assistant Secretary*
E. G. Aust, C.A., *Assistant Treasurer*

Head Office

Twenty-second floor, Sun Life Building, Montreal 2, Quebec

Transfer Agents

for preference and common shares:

Montreal Trust Company — Halifax, N.S.;
Saint John, N.B.; Montreal, Que.; Toronto, Ont.;
Winnipeg, Man.; Vancouver, B.C.

for common shares only:

Empire Trust Company, New York, N.Y.

Registrars

for preference and common shares:

The Royal Trust Company — Halifax, N.S.;
Saint John, N.B.; Montreal, Que.; Toronto, Ont.;
Winnipeg, Man.; Vancouver, B.C.

for common shares only:

Empire Trust Company, New York, N.Y.

**REPORT
OF
THE DIRECTORS
TO
THE SHAREHOLDERS**

The consolidated financial statements of your Company and its subsidiaries for the year ended December 31, 1963 are submitted herewith together with the auditors' report thereon.

In the body of the Annual Report, from page 17 to page 28, there is a review of each of the major Domtar operating companies.

Sales

The consolidated sales for 1963 totalled \$352,657,325 and were 2½% higher than in the previous year. The following table gives a brief analysis of sales and a comparison with the previous year for the three major categories of our product distribution.

	1963	Increase over 1962
Pulp and Paper.....	62%	2%
Chemicals.....	17%	6%
Construction Materials.	21%	2%

Growth of sales was restricted, particularly in the first half of 1963, by a number of adverse factors. Newspaper strikes in New York and Cleveland resulted in substantial losses of tonnage to this Company as well as to the Canadian newsprint industry as a whole. A month long strike at our Etobicoke corrugated carton plant in June reduced paperboard

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

as well as packaging sales. Uncertainties resulting from the June budget substantially affected the level of construction materials business for several months.

Further details of the Company's sales are also shown in the financial statistics for ten years which are included in the body of the Annual Report.

Operating Profits

At \$57,403,163 operating profits for the year 1963 are marginally lower than in 1962 notwithstanding the small increase in sales; the overall margin of profits to sales at 16.3% compares with 16.8% in the preceding year.

Apart from a lower level of prices for some products, upward pressures on costs continue to affect operating profits. Wage and salary costs as well as fringe benefits continue to rise generally and improvements in product quality to meet competitive market conditions have raised costs for many of our paper products.

The planned development of the Company's research effort involved an increase of a little more than \$500,000 over 1962 research expenditures. Initial start-up costs incurred in bringing into operation the new coating machine at Trois-Rivières, Quebec, for the production of publication grade coated paper were quite substantial; increased

costs were similarly incurred on the start-up of the new lime plant in Tacoma, Washington, and the new foil-fibre can operation at Chatham, Ontario. Many of these cost increases were of a non-recurring nature.

Towards the end of the year conditions improved; operating profits for the fourth quarter represented 17.5% of sales as compared with 16.5% in the same quarter last year.

Investment and sundry income declined from 1962 to 1963 by \$598,511. The 1962 income had included a non-recurring capital gain of \$311,800 from the sale of a minority interest in a South African paper company.

Charges against Income

Interest on funded debt was somewhat lower than in the preceding year as a result of the reduction of the amount of debt due to sinking fund operations. Depreciation and depletion totalling \$19,750,000 has been provided in the consolidated accounts for the year, an increase of \$500,000 over the amount provided in 1962.

Profit and Dividends

The income tax provision for 1963 of \$10,503,000 is \$1,536,000 less than the tax provided in the previous

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

year. The special corporate tax allowances for increased capital and operating expenditures on research and on new machinery and equipment acquired after June 13, 1963 are responsible for most of this reduction.

After deducting the tax provision and \$1,650,747 for the share of profits of subsidiary companies attributable to minority shareholders, the net profit for the year amounted to \$20,832,234. This represents \$1.41 per common share on the outstanding 14,562,200 shares after providing for the dividends of \$1.00 per share paid on the cumulative redeemable preference shares. The 1962 earnings were equivalent to \$1.40 per share on the same number of common shares.

Dividends on the common stock were maintained at 80 cents per share and total dividends payable for the full year amounted to \$11,949,760.

Working Capital

Net working capital at the end of the year amounted to \$96,700,028 and showed little change from the end of the previous year.

With the higher level of sales at year end, accounts receivable were up \$3,340,292. Inventories, excluding pulpwood, were also up, by \$2,549,634, but the program of reduction in pulpwood inventories which showed such good results in 1962 continued

through 1963 and resulted in a further reduction of \$2,331,296.

The ratio of current assets to current liabilities remained at 3.7:1.

Investments

In October, 1963 your Company's wholly-owned subsidiary, Domtar International Limited, acquired a 49% interest in the outstanding capital of Cellulosa d'Italia S.p.a., an Italian fine paper company with a mill at Chieti, Italy. This interest was acquired from Istituto Per La Ricostruzione Industriale which has retained a 51% interest.

Cellulosa d'Italia operates straw pulping facilities and has two modern machines to make fine papers using this pulp and imported woodpulp. A third paper machine is already on order and is scheduled to come into production in 1966.

Your Company has obtained the right to supply the woodpulp requirements for Cellulosa d'Italia's operations.

Fixed Assets

Expenditures on new plant and equipment at a net total of \$19,379,166 were appreciably lower than the 1962 figure of \$26,699,936.

Major expenditures included those needed to complete construction of the lime plant at Tacoma, Washington, installation of equipment to make publication grade paper at Trois-Rivières, Quebec, and building the new research facilities at Senneville, Quebec.

A new major project for the expansion of pulp and linerboard facilities at Red Rock, Ontario, has recently been approved by your Directors. At the end of the year, the total unexpended balance of authorized capital expenditures amounted to \$20,150,599.

Funded Debt

No bonds or debentures were issued during the year. Through the normal operation of the sinking funds, the net outstanding funded debt was reduced by \$3,969,000. The consolidated debt totalled \$107,131,000 at year-end. Sinking fund requirements for 1964, after deducting bonds and debentures already acquired, amount to \$4,971,000.

Officers and Directors

Your Directors regret the loss occasioned by the death in October, 1963 of Mr. Robert A. Bryce, a Director of your Company since April, 1959 and formerly for many years a Director of Gypsum, Lime and Alabastine, Canada, Limited.

In January, 1964 Colonel Maxwell C. G. Meighen, O.B.E., was appointed by the Directors to fill the vacancy on the Board.

Your Directors wish to take this opportunity to record their appreciation to the officers and employees throughout the organization for their efforts in what has been a difficult year.

ON BEHALF OF THE BOARD

E. P. TAYLOR, W. N. HALL,
Chairman *President*

Montreal, Canada, January 28, 1964.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31 1963

ASSETS

	1963	1962
CURRENT:		
Cash and short-term investments.....	\$ 2,612,295	\$ 6,443,895
Accounts receivable.....	55,278,745	51,938,453
Inventories of finished products, work in process, raw materials and supplies at lower of cost or market.....	47,715,838	45,166,204
Pulpwood and advances on woods operations.....	23,545,104	25,876,400
Prepaid expenses.....	2,455,035	2,991,835
	<hr/> <u>\$131,607,017</u>	<hr/> <u>\$132,416,787</u>
INVESTMENTS AND ADVANCES, at cost		
Listed securities (quoted value — \$9,435,000).....	\$ 13,349,368	\$ 13,349,441
Other investments and advances.....	7,939,151	4,081,713
	<hr/> <u>\$ 21,288,519</u>	<hr/> <u>\$ 17,431,154</u>
FIXED ASSETS:		
Land and water power rights, at cost.....	\$ 7,358,230	\$ 7,189,627
Buildings, plant, machinery, equipment and timber limits — Note 1.....	432,511,143	414,216,703
	<hr/> <u>\$439,869,373</u>	<hr/> <u>\$421,406,330</u>
<i>Less:</i> Accumulated depreciation and depletion.....	213,130,177	194,843,514
	<hr/> <u>\$226,739,196</u>	<hr/> <u>\$226,562,816</u>
SIGNED ON BEHALF OF THE BOARD:		
W.N. HALL		
<i>Director</i>		
COLIN W. WEBSTER	<hr/> <u>\$379,634,732</u>	<hr/> <u>\$376,410,757</u>
<i>Director</i>		

LIABILITIES

	1963	1962
CURRENT:		
Accounts payable and accrued liabilities.....	\$ 26,181,624	\$ 25,357,258
Income and other taxes — Note 2.....	5,438,114	7,302,359
Dividends payable.....	3,287,251	3,292,625
	<hr/>	<hr/>
	\$ 34,906,989	\$ 35,952,242
 FUNDED DEBT — Note 3.....	 <hr/>	 <hr/>
	\$107,131,000	\$111,100,000
 PREFERRED SHARES OF SUBSIDIARY COMPANIES AND OTHER MINORITY INTERESTS — Note 4.....	 <hr/>	 <hr/>
	\$ 28,800,352	\$ 29,179,874
 CAPITAL:		
Capital stock —		
Cumulative redeemable preference shares, each of a par value of \$23.50 with annual dividend of \$1.00 —		
Authorized and issued — 300,000 shares.....	\$ 7,050,000	\$ 7,050,000
Common shares without nominal or par value —		
Authorized — 20,000,000 shares		
Outstanding — 14,562,200 shares.....	128,533,922	128,533,922
Surplus resulting from restatement of certain fixed assets — Note 5.....	12,394,207	12,658,931
Earned surplus, per statement attached.....	60,818,262	51,935,788
	<hr/>	<hr/>
	\$208,796,391	\$200,178,641
	 <hr/>	 <hr/>
	\$379,634,732	\$376,410,757

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

for the Year ended December 31 1963

	<i>1963</i>	<i>1962</i>
Sales.....	\$352,657,325	\$343,975,650
Cost of sales including selling, general and administrative expenses.....	295,254,162	286,031,706
	<hr/>	<hr/>
Operating profit before taking into account the undernoted items.....	\$ 57,403,163	\$ 57,943,944
Investment and sundry income.....	1,208,788	1,807,299
	<hr/>	<hr/>
	\$ 58,611,951	\$ 59,751,243
	<hr/>	<hr/>
Interest on funded debt.....	\$ 5,875,970	\$ 5,901,903
Depreciation and depletion.....	19,750,000	19,250,000
Income taxes — Note 2.....	10,503,000	12,039,000
Provision for minority interests.....	1,650,747	1,843,294
	<hr/>	<hr/>
	\$ 37,779,717	\$ 39,034,197
	<hr/>	<hr/>
Profit for the year — Note 2.....	\$ 20,832,234	\$ 20,717,046
Earned surplus — balance at beginning of year.....	51,935,788	43,735,699
	<hr/>	<hr/>
	\$ 72,768,022	\$ 64,452,745
	<hr/>	<hr/>
Financing expenses.....	\$ —	\$ 711,197
Dividends on preference shares.....	300,000	300,000
Dividends on common shares.....	11,649,760	11,505,760
	<hr/>	<hr/>
	\$ 11,949,760	\$ 12,516,957
	<hr/>	<hr/>
Earned surplus — balance at end of year.....	\$ 60,818,262	\$ 51,935,788

Amounts paid by the Company during 1963 in respect of remuneration of executive officers, directors' fees and legal fees aggregated \$900,058.

NOTES TO FINANCIAL STATEMENTS

December 31 1963

Note 1—Buildings, plant, machinery and equipment and timber limits — basis of valuation:

Dominion Tar & Chemical Company, Limited and subsidiary companies (excluding the undenoted subsidiary companies) at cost except for certain properties carried at depreciated replacement values as determined by the Canadian Appraisal Company Limited in 1950 and 1952.....	\$302,349,442
St. Lawrence Corporation Limited and subsidiary companies — fixed assets are stated at cost (except for woodlands improvements and equipment which are stated at cost less write-offs) including in such cost the excess cost of shares of a partly owned subsidiary company over book value of net assets at date of acquisition.....	130,161,701
	<u>\$432,511,143</u>

Note 2 — Income taxes:

Income taxes have been calculated on the basis of the intention to claim capital cost allowances which exceed depreciation provided in the accounts. As a result the total taxes otherwise payable for the year have been reduced by approximately \$5,100,000 (\$3,320,000 in 1962). The cumulative amount by which taxes otherwise payable have been reduced is approximately \$16,490,000.

In 1961 the company received federal income tax assessments in respect of the years 1959 and 1960. The principal item in dispute in the assessments (approximately \$4,225,000 plus interest) arises out of the reallocation by the tax authorities of the purchase considerations for the depreciable assets acquired from Gypsum, Lime and Alabastine, Canada, Limited, which reallocation disregards the terms of the contract dated January 21 1959. It is the opinion of the Board of Directors, based upon their knowledge of the facts and opinion of Tax Counsel, that the company's Notices of Objection which have since been filed should be sustained.

Note 3 — Funded debt:

Dominion Tar & Chemical Company, Limited —	
3½% First mortgage sinking fund bonds, Series "B", maturing August 1, 1970....	\$ 2,100,000
5% Sinking fund debentures, Series "A", due June 1, 1965.....	2,000,000
5¼% Sinking fund debentures, Series "A", due June 1, 1978.....	21,750,000
6¼% Sinking fund debentures, Series "B", due May 1, 1980.....	13,650,000
5% Serial debentures, Series "C", due 1964-1969.....	4,500,000
5½% Sinking fund debentures, Series "C", due April 1, 1982.....	15,500,000
	<u>\$ 59,500,000</u>
<i>Less: Held for sinking fund.....</i>	<u>456,000</u>
	<u>\$ 59,044,000</u>

Howard Smith Paper Mills, Limited —

3% First mortgage bonds, 1950 Series, due December 1, 1964-1970.....	\$ 4,200,000
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St. Lawrence Corporation Limited —

First mortgage sinking fund bonds —	
5% Series "A", due April 15, 1972.....	\$13,189,000
4¾% Series "B", due April 15, 1972 (payable in U.S. funds).....	4,796,000
5% Series "C", due May 1, 1978.....	10,844,000
Sinking fund debentures (secured) —	
6¾% Series "A", due June 15, 1980.....	15,000,000

Hinde and Dauch Limited —

3½% Serial debentures (secured), due 1964-1965.....	<u>1,600,000</u>
	<u>\$ 45,429,000</u>
<i>Less: Held for sinking fund.....</i>	<u>1,542,000</u>
	<u>\$ 43,887,000</u>
	<u>\$107,131,000</u>

An amount of \$4,971,000 is required for retirement of funded debt in 1964 (after deducting bonds and debentures held for sinking fund).

NOTES TO FINANCIAL STATEMENTS

Note 4—Preferred shares of subsidiary companies and other minority interests:

Howard Smith Paper Mills, Limited —	
160,000 \$2 preferred shares of \$50 each	\$ 8,000,000
St. Lawrence Corporation Limited —	
132,879 5% preferred shares of \$100 each.....	13,287,900
Interest of minority holders of common shares in subsidiary companies.....	7,512,452
	<hr/>
	\$ 28,800,352

Note 5—Surplus resulting from restatement of certain fixed assets:

Excess of restated depreciated value over depreciated book value of certain fixed assets (unchanged during year).....	\$ 15,141,969
Net excess (after increase of \$264,724 during 1963) of consideration for acquisition of shares of subsidiaries over book value of net assets.....	2,747,762
	<hr/>
	\$ 12,394,207

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Dominion Tar & Chemical Company, Limited and subsidiary companies as at December 31 1963 and the consolidated statement of profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and the related consolidated statement of profit and loss and earned surplus, with the notes thereto, are properly drawn up so as to exhibit a true and correct view of the state of the combined affairs of Dominion Tar & Chemical Company, Limited and subsidiary companies as at December 31 1963 and the results of their combined operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & Co.
Chartered Accountants.

Montreal, January 28 1964.

DISTRIBUTION OF THE INCOME DOLLAR



Operating expenses accounted for $83\frac{1}{2}$ cents of each dollar of income in 1963 leaving $16\frac{1}{2}$ cents to meet all other expenses and charges and to provide a return to shareholders.

Operating expenses included salaries and wages of 25 cents, pulpwood costs of $11\frac{1}{2}$ cents and 47 cents for all other materials and services.

Interest on funded debt was equivalent to $1\frac{1}{2}$ cents, depreciation charged against profits represented $5\frac{1}{2}$ cents and corporate income taxes (including logging taxes) amounted to 3 cents of the income dollar.

Minority shareholders earned $\frac{1}{2}$ cent leaving 6 cents as the net earnings of the Company. Shareholders received dividends of $3\frac{1}{2}$ cents and $2\frac{1}{2}$ cents were retained in the business to provide for modernization and expansion.

THE CENTRAL RESEARCH DEPARTMENT



The Vickers Projection Microscope — a powerful instrument for examining the fine detail of fibres, particles.

The research activities of DOMTAR were essentially consolidated, late in 1963, by the transfer of Central Research staff from laboratories at Cornwall, Ont. and Ville LaSalle, Que., to the new Research Centre at Senneville, Que.

The need for expanded research was recognized prior to the consolidation of Dominion Tar with Howard Smith Paper Mills, St. Lawrence Corporation and Hinde and Dauch Limited. Each of these companies was supporting an independent research program. Despite limited facilities and resources these programs had made significant contributions to industrial technology, many of which have, under license, become standard technology throughout the world. Examples of these developments include the Black Liquor Recovery Furnace which has become standard equipment in kraft pulp manufacture, and Bauer Centricleaners which are now widely used to remove dirt from pulp and from paper machine stock.

By-product and waste utilization is represented by development of a process to manufacture vanillin from waste pulping liquors and the recovery of lignin from other waste liquors which led to the development of "Arborite" plastic laminates now manufactured by our company in Canada and the United Kingdom and marketed in 70 countries. In pulping technology, the "Magnefite" pulping process is now operating under license in Europe and the U.S.A. as well as in Canada.

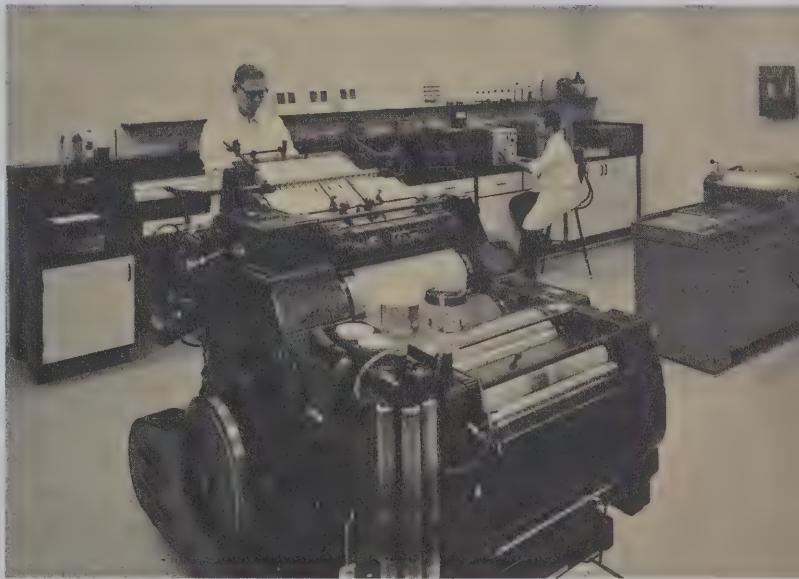
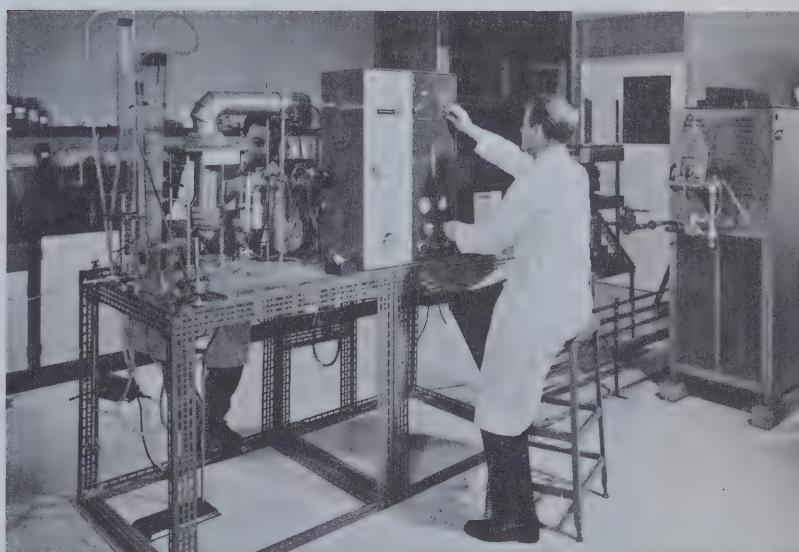
In 1960, the companies mentioned in the second

paragraph developed a proposal to create a co-operative Research Centre as an alternative to the essential independent expansion of their facilities and programs. At the time of the merger of these companies, which are the major components of the present DOMTAR organization, studies of location and organization were already well advanced on the cooperative proposal. As a result the new Research Centre has been completed with a minimum of delay.

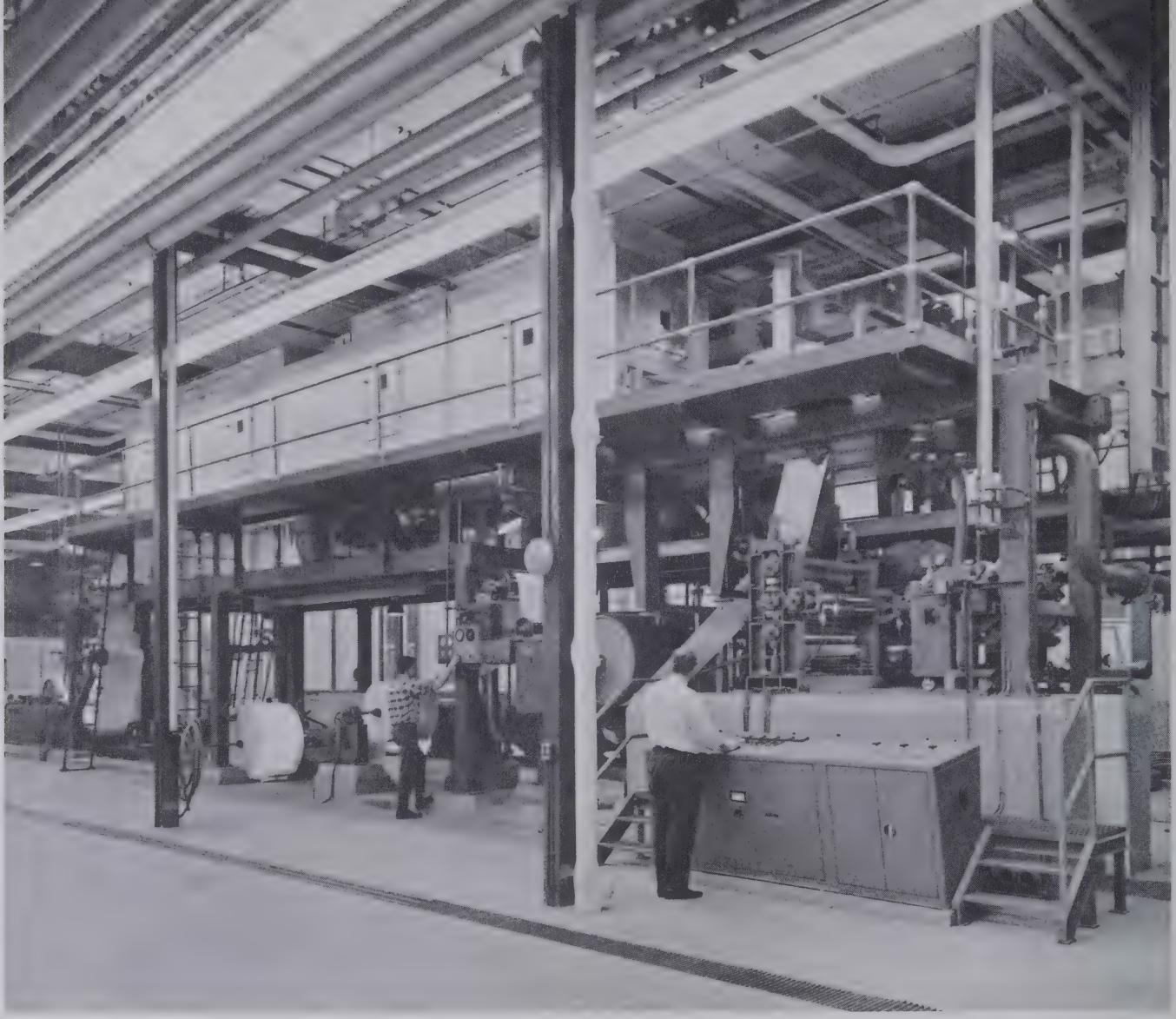
The Senneville site consists of 100 acres of partially wooded property facing the new Trans-Canada Highway and bordered by the Morgan Arboretum, the experimental forest of McGill University. The community, with Macdonald College close-by, is an attractive living area for technical and professional staff and will provide an excellent environment for research. It is conveniently located with respect to many of the company's manufacturing facilities and the new highway will provide ready access to the libraries, universities and facilities of the Montreal area.

The Research Centre consists of a three storey laboratory building and a single storey annex designed to permit installation of pilot plant facilities. The buildings are connected by a link containing a lunch room and study areas. The buildings have an attractive functional design and feature many of the company's building materials. The entire centre has been designed to permit economical and efficient expansion.

Typical Laboratory — Equipment used in the study of conversion of waste methyl alcohol into formaldehyde — a component of the resins used in making "Arborite" plastic laminate. At right is a sintering and annealing furnace used in metal powder research.



Graphic Arts Research — Paper and board is usually printed. Here a small offset press is used to evaluate the running properties, printing quality and post-press performance of various kinds of paper and board.



The staff, numbering approximately 125, includes the staff previously located in Cornwall, Ont. and Ville LaSalle, Que. It has been re-organized on a sectional basis with Dr. G. H. Tomlinson II, as Director and Dr. H. B. Marshall as Associate Director.

An experimental paper machine and pilot continuous digester located at Cornwall, Ont. will continue to operate under Central Research administration at that location. This type of satellite operation permits the utilization of raw materials and many mill facilities for pilot plant or semi-commercial operation on a larger scale than would be practical at the Research Centre. It will be applied at other manufacturing locations as the need develops.

Pilot Plant Paper Coater — This 30-inch paper coating equipment is used to develop new coatings and improved techniques of application.

The research program is directed towards the development of new and improved products, processes and equipment. Because of the diversity of the company's interests and product lines, the research program is also highly diversified. On the firm footings of excellent facilities, a qualified and dedicated staff and a history of past success in industrial research, the Senneville Research Centre is expected to generate a steady flow of improved products and processes and permit the Company to adapt to the rapidly changing technology of the times.

DOMTAR CHEMICALS LIMITED

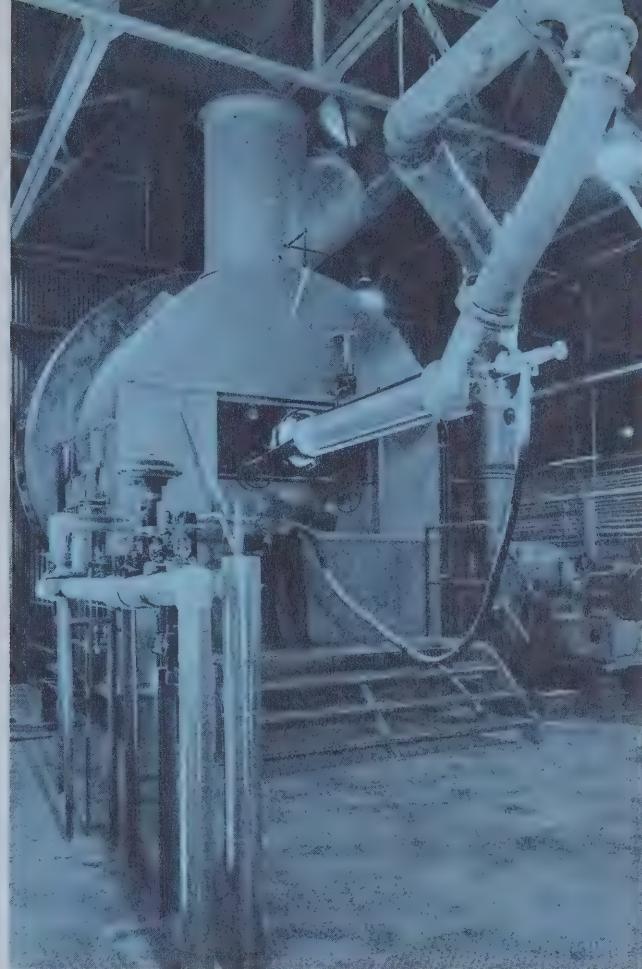
Sales of Domtar Chemicals Limited for 1963 exceed the previous year by 3%. In the face of further erosion of selling prices of some chemicals, improvements in plant efficiencies and cost control measures raised operating profits significantly.

The Canada Creosoting Division, with 11 plants across the country, treats wood against decay. Major customers include the railways, power and telephone companies and the Provincial and Federal departments of public works. Sales and profits for 1963 were comparable to the previous year. A slow but steady growth is expected in the future.

Chemical Developments of Canada Limited manufactures organic chemicals, particularly surface active agents, and is an important supplier of dye-stuffs and imported specialty chemicals to many industries. A sales increase of about 5% in 1963 generated a corresponding gain in operating profit. The outlook for 1964 is another modest rise in sales and profits.

The Lime Division, reflecting recently installed new facilities, showed a 14% increase in sales. Enlargement of the Pacific Northwest market in the U.S.A. was achieved through erection of a new plant in Tacoma, Washington. Competition in this area will increase when another plant, now under construction, is in operation. However, a continuing rise in overall sales and some improvement in profits in 1964 is forecast.

The Metal Powders Division, supplying a wide range of iron powders to welding rod manufacturers



Lime-burning operation carried out at Joliette, Que., plant. Shows firing end of kiln, where a pipe and valve system brings oil under pressure to the kiln burning-zone.

in Canada and abroad, operated at capacity and is expanding facilities.

The Sifto Salt Division results for 1963 were below the previous year's level. Severe price competition from the U.S.A. limited exports and reduced Canadian sales volume of ice control salt. Sales to industrial users and domestic consumers increased and show a rising trend. A recent sales re-organization and emphasis on new developments is expected to improve performance in 1964.

The 1963 operations of the Tar & Chemical Division reflected the adjustments and consolidation of facilities made during the past two years. Sales equalled last year's and operating profit showed a marked improvement. Further gains are expected in the coming year.

Modernization and expansion programs continued



Goderich, Ontario: this immense truck works 1800 feet underground at the Sifto Salt mine. It has a capacity of 37 tons and is believed to be one of the largest units of its type in the world.

in all Divisions. The new lime plant at Tacoma, Washington, U.S.A. was in full operation in March 1963. Construction of the new Canada Creosoting Division plant at Cochrane, Alta. proceeded on schedule and will be completed in March 1964. A second shaft at the Goderich mine of the Sifto Salt Division was ready at year's end. Two new salt depots were built-at Montreal East and Ville Jacques Cartier, Que.

Major renovation of the Goderich evaporated salt plant, including a new building and modern handling and packaging equipment was underway during the year and is scheduled for completion by April, 1964.

The Longford Mills, Ontario plant of Chemical Developments of Canada Limited completed a new warehouse and plans expansion of production facilities. Erection of a new plant for the Metal Powders Division was started in September 1963 and is expected to be in operation in April 1964. This plant will provide high quality annealed iron and alloy pressing powders, previously available in pilot plant quantities only, to the growing domestic and export markets. The use of iron and alloy powders for the fabrication of structural parts by techniques of powder metallurgy is increasing at a rapid rate. The new plant, the first in Canada, will produce a wide variety of powders in the most modern equipment available. Concurrent expansion of research effort on properties and end-uses is expected to make a significant contribution to the field of powder

metallurgy.

The Tar & Chemical Division assumed marketing responsibility for vanillin and is planning a major plant expansion in cooperation with Domtar Pulp & Paper Limited.

Development activity in the area of industrial minerals was directed largely to further studies in potash extraction by a solution mining method. The Company holds two permit areas in Saskatchewan. A drilling program was started in November and continues. Successful results will lead to a long range project with eventual entry into potash production. New products developed by the Divisions play an important role in maintaining and expanding sales. The Sifto Salt Division introduced "Aqua-Magic" fused salt for water softeners in Western Canada and made innovations in the packaging of table salt. Chemical Developments of Canada Limited evolved new uses for carboxymethylcellulose. A special type of quicklime required for the basic oxygen process of the steel industry is being supplied by the Lime Division. The Tar & Chemical Division is introducing new forms of electrode pitch to the aluminum industry.

The wide range of domestic and export industries served by Domtar Chemicals Limited gives an element of stability to the marketing of its products. Current forecasts of business in 1964 indicate continued buoyancy. It is, therefore, believed that sales will increase 3 to 5% in the coming year and operating profits will show at least an equivalent gain.

DOMTAR CONSTRUCTION MATERIALS LTD.

The marine use of "Arborite" decorative laminate is increasing rapidly, both in Europe and North America. Ship designers are finding this material both functional and pleasing to the eye. The B.C. Toll Authority's new ferry, "Queen of Saanich" (seen below) makes extensive use of walnut pattern "Arborite" laminates in restaurants, cabins and lounges.

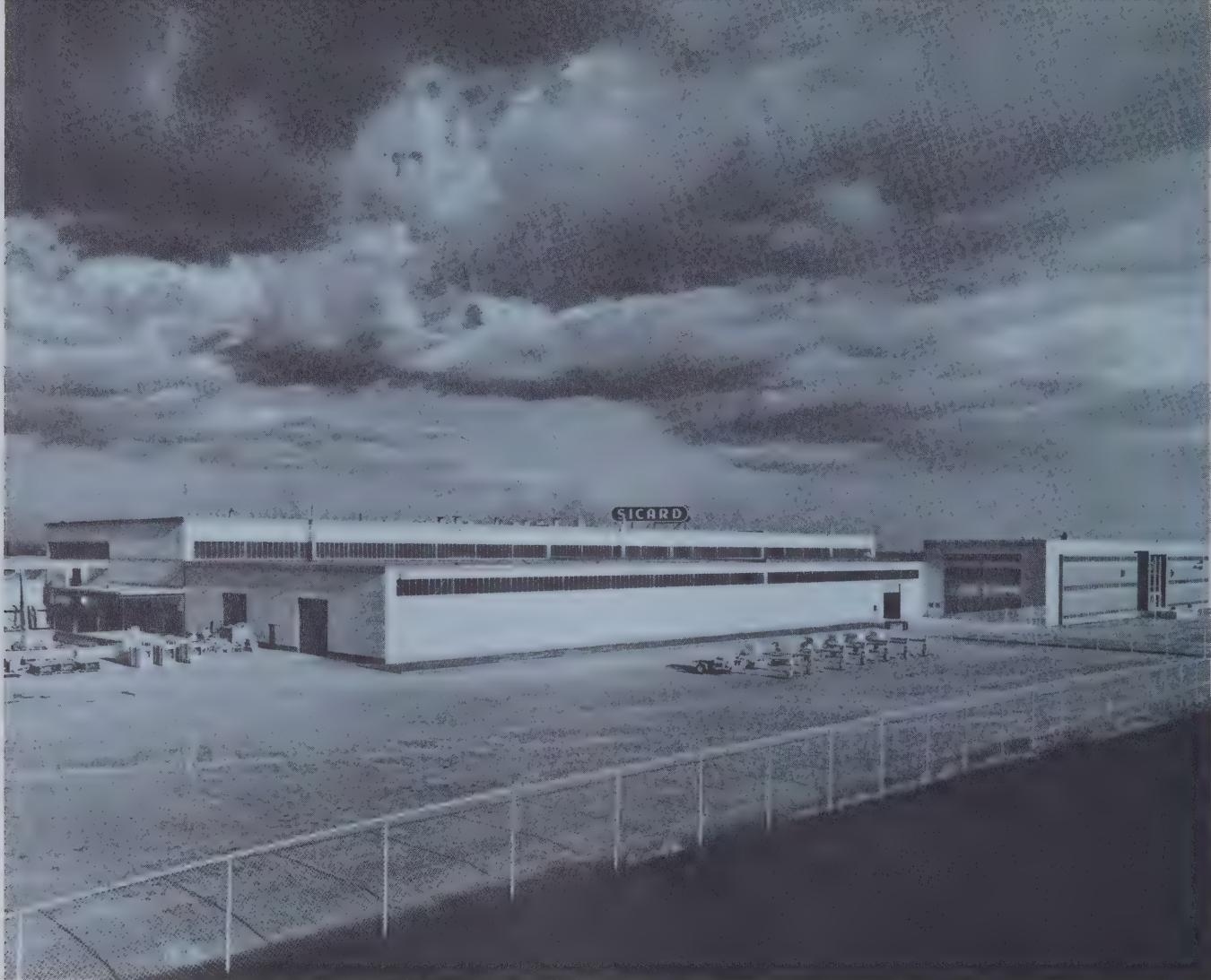


House building offers many opportunities for the marketing of construction materials.

In 1963 Domtar Construction Materials Ltd. completed its first full year of operation in its present form. The consolidated marketing organization for Clay, Fibre, and Gypsum Products, as well as the sales organizations of the other operating divisions — The Arborite Company, McFadden Lumber Company and the Siporex Company — provided improved field coverage which resulted in better market participation in almost all product lines. The government's incentive bonus for winter house construction caused a late winter increase in housing starts to levels above 1962, but this increase was too late to affect 1963 shipments appreciably. The high proportion of apartment units compared to single and two-family units built in 1963 decreased the total usage of asphalt shingles, gypsum board, lath and plaster, clay brick and similar products per unit so that total industry shipments were about the same as in 1962 on some products and lower on others.

Although the total business available was the same or lower than in 1962, improved market participation in 1963 resulted in modest sales increases.

Building material prices were subject to strong competitive pressures throughout 1963 and during the year they were at the lowest levels experienced for some time. However, Domtar Construction Materials Ltd. had an increase in operating profits for the year of over 20% from 1962 as a result of more efficient plant operations and close control of all costs.



Export shipments continued to be an important part of total volume, particularly for "Arborite" decorative laminates, "McFadden" white pine lumber, and "Donnacona" fibre board and acoustical products. The Arborite plant, established in the U.K. at North Shields, England in early 1962, was operating on a three-shift basis by the end of 1963.

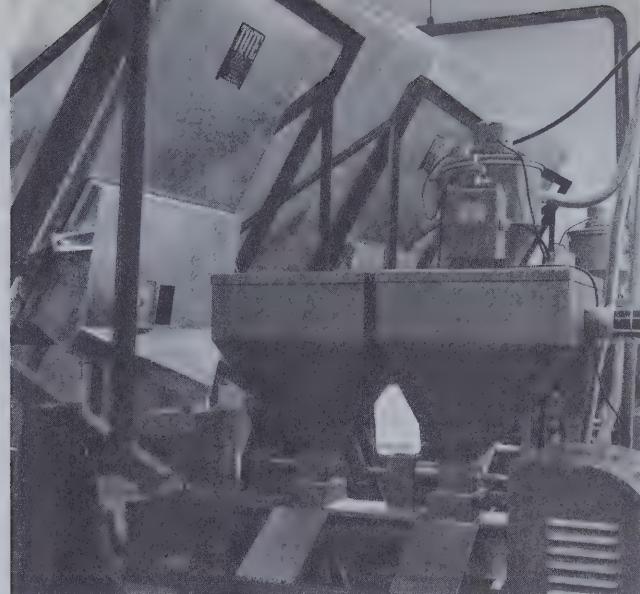
Expenditures for modernization and improvement of plants and equipment in recent years, such as the programs at the Caledonia, Ont. gypsum plant and mine, and the McFadden Lumber Company Division mill at Blind River, Ont. have contributed to the improved profits in 1963.

As the result of a continuing program of product improvement and development, several new or revised products were introduced during the year, such as "Donnasorb" incombustible acoustic tiles and ceiling panels, a complete line of demountable gypsum

The Sicard Plant at Ste-Thérèse, Quebec, is constructed of "Siporex" precast roof and wall slabs. These can be installed quickly and economically, providing a structural material with built-in insulation and excellent fire rating.

partition systems, and "Kermaglaze" clay brick with an attractive and durable ceramic glazed surface. Equipment was added to produce "Donnacona K. B. Blackote" asphalt impregnated fibre board sheathing at the Saskatoon, Saskatchewan fibre board plant. Also, the Burnaby, B.C. roofing plant was equipped to produce various roofing specialty lines such as roofing cements, primers and preservatives, as well as foundation coating materials.

The distributors, dealers and trade applicators through which materials reached construction projects in Canada and 68 other countries throughout the world contributed much to meeting the requirements of the end users in 1963.



Domtar Consumer Products Ltd. can report a year of significant progress in both sales and earnings despite competitive pressures in many key markets across Canada. Long established products as well as new brands contributed to this growth.

Plastic bottles for "Javex" liquid bleach have been well accepted by the grocery trade and the public, and increased sales have reflected this greater demand. The trend to plastic bottles for other Company products has continued with good results.

The Company again made substantial investments of capital funds in plants and improved equipment to make possible even more efficient production thereby lowering costs and protecting the competitive position in the market place.

There was some further growth in export business throughout the West Indies. Some difficulties were encountered in certain countries due to political and economic problems.

In May, the new Plastics Division began to blow-mould bottles for "Javex" liquid bleach at a new plant in Toronto. In this new and growing field, good progress has been made, and the blow-moulding operation is producing most of the Company's plastic bottle requirements in Eastern Canada.

In September, a new plant was opened in Moncton, N.B., to serve customers in the Maritime Provinces and in Newfoundland with our products. In November, an extension to the Scarborough plant was completed to provide needed facilities for the packaging of powdered products.

The new plastic bottles for "Javex" bleach start with the blending of powdered resins and pigments. There are several of these machines in the Toronto, Ontario plant, with changeable moulds to make the various sizes and shapes required.



At left the blow-moulding equipment which produces rough bottles. They are cooled in the perforated conveyor baskets.

Cooled rough bottles are fed to the "trimmer" which removes the excess material known as "flashings."



We have continued aggressive advertising and promotion programs to strengthen and expand consumer franchises for both established products and new products.

The trend toward customer convenience in consumer products is steadily accelerating. We are endeavouring to concentrate on trying to provide even greater quality and variety in these timesaving packaged products designed to fulfill consumer wants and needs.



The filling line at the Moncton, N.B. plant, where bottles are filled, capped, labelled and inspected.



Cases of empties are unloaded (right), at the Moncton, N.B. plant. Bottles are directed to the filling line and then reloaded into cases and piled on pallets for shipment.

DOMTAR NEWSPRINT LIMITED

Total net sales of Domtar Newsprint Limited increased by 1.5% in 1963. All of this gain was in newsprint with containerboard sales showing a small decline.

Newsprint operating profits were down slightly as compared to 1962. Contributing to this reduction were higher costs of wages, services and raw materials. Severe quality competition made it necessary to up-grade product quality—resulting in an increase in cost.

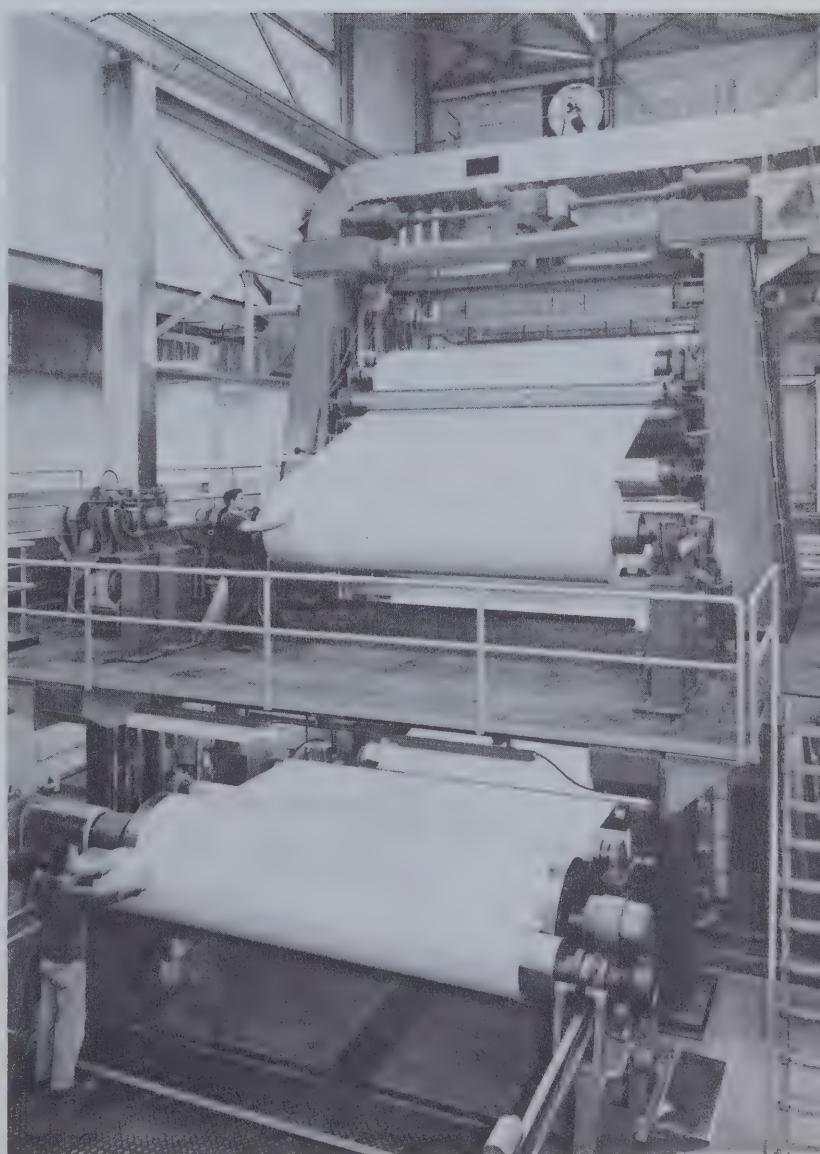
The markets in containerboard in 1962 were highly competitive both at home and abroad.

New domestic producers, and further impact from recent acquisitions of independent converters by competitors, have resulted in a reduction of domestic sales. These losses have been partially replaced by increased exports, but, unfortunately, with a lower net return on sales.

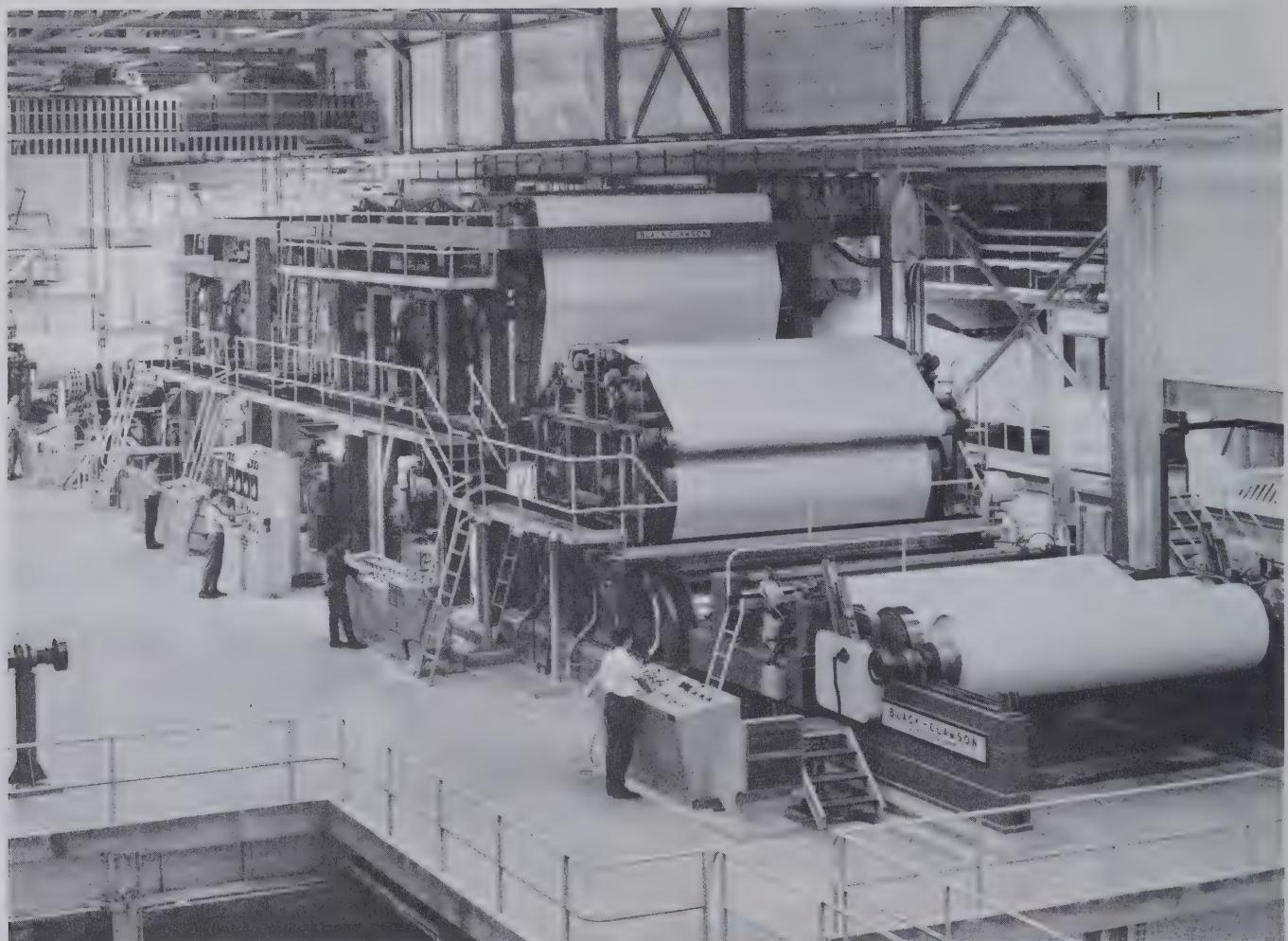
The recently announced expansion program at Red Rock, Ont. should lower costs, improve product quality, and increase the competitive position in the kraft paper and board fields. It will increase annual containerboard capacity by 60,000 tons, and will also permit the manufacture of multi-wall sack and bag paper at this mill, if deemed desirable.

Late in 1963 publication grade coated papers were successfully produced for the domestic and export market. This will eliminate the need for Canadian publishers to import this grade from the United States.

Planned programs of modernization and expansion



Giant Supercalender which smooths and polishes the coated paper surface for the production of fine illustrations in magazines, catalogues, etc.

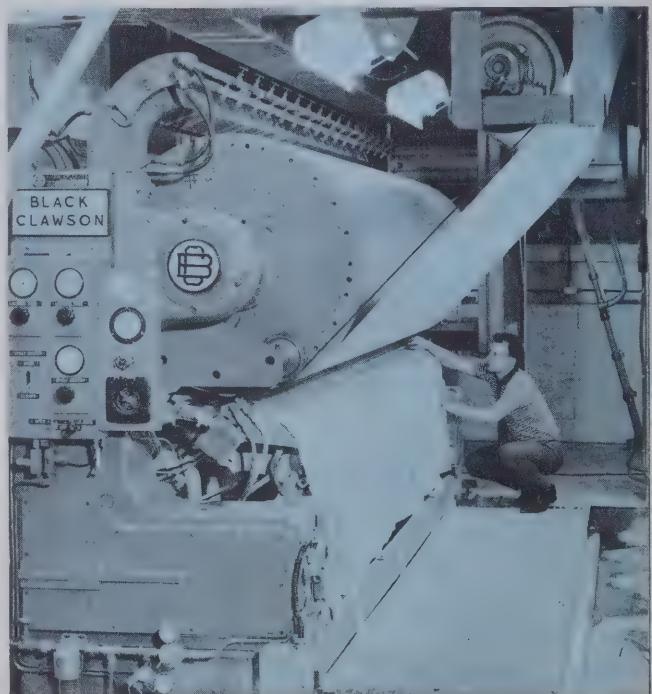


Trois-Rivières: general view of Publication Grade Coating Machine which came into operation in October, 1963.

included many changes to plant and equipment. At Trois-Rivières, Que., modifications were made to the sulphite pulping system; a paper machine was converted to the manufacture of special light-weight groundwood grades and base stocks for publication coating; and a publication grade coating machine and supercalender were installed.

At Trenton, Ont., major modifications were made to the semi-chemical pulping process. An extension to the Lime Kiln and the installation of a pressurized stock cleaning system were completed at Red Rock, Ont. Similar stock cleaning equipment was installed at Dolbeau, Que.

Experiments in the manufacture of mechanical and chemical pulp were continued at Donnacona and Trois-Rivières.



A thin, even coating of finely-divided white mineral suspended in an adhesive is applied to the base paper.

DOMTAR PACKAGING LIMITED

Domtar Packaging Limited, operating three divisions, produces a wide variety of packages and packaging materials.

The Hinde and Dauch Division produces many types of corrugated and solid fibre paperboard products for application mainly in the shipping container field. A strike closed the largest of eight producing plants for the entire month of June, 1963; in spite of which dollar sales of the Division were up 2.5% over 1962, but profits declined due to that problem, as well as the keen competition which prevailed generally throughout the industry.

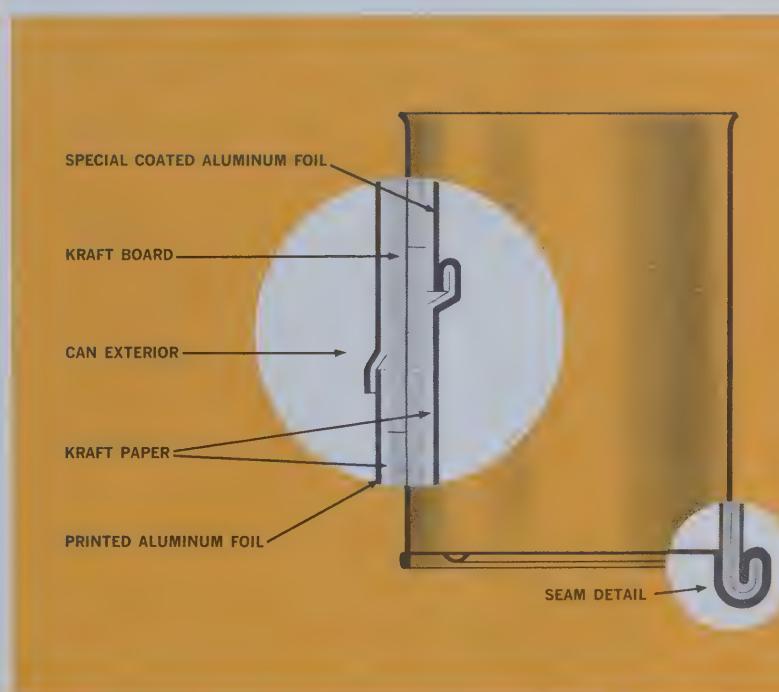
Product developments during the past year include: the new "C" flute for corrugated products, which provides benefits of quality and economy to customers; and a corrugated box-polyethylene bag combination for distribution of liquids, notably milk, which is expected to find favour with hotels, restaurants and other large commissariat installations.

Product quality levels were improved and equipment was modernized. A major project was the complete rebuilding and updating of the larger corrugating machine in the Montreal plant.

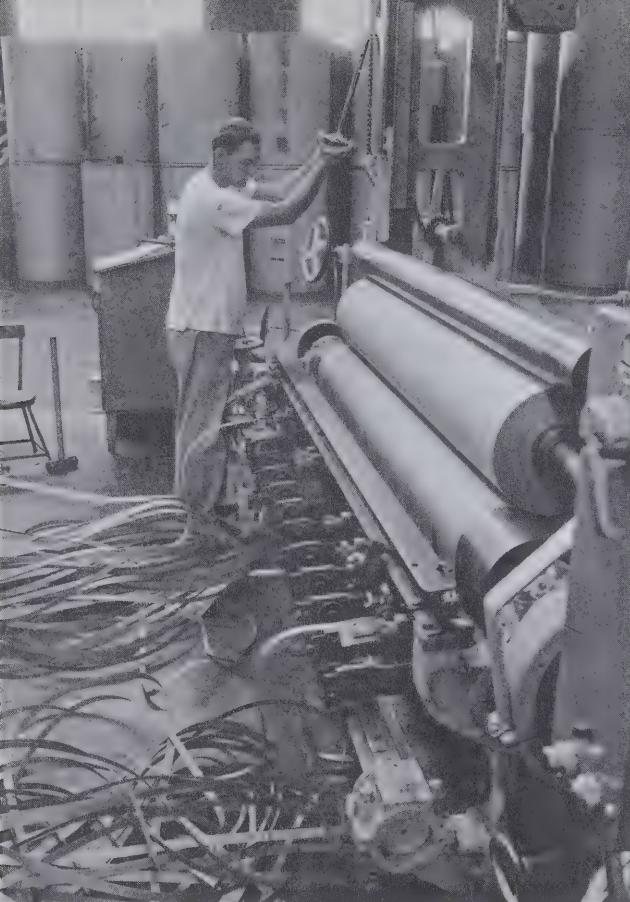
The Carton Specialties Division produces folding cartons and fibre cans. It has undergone unusual growth during the year. Insofar as fibre cans are concerned, not only has new machinery been added at the Chatham plant but, in addition, the facilities of Cleveland Container Canada Ltd. at Toronto and Prescott, Ont. have been acquired. This provides three strategically located producing units capable

of serving the market with a full range of spirally and convolutely wound fibre cans and tubes. The folding carton business was subjected to highly competitive pressures, resulting in the sale volume and profits being disappointing during the past year. Good growth is expected in overall activity for this division during the year 1964.

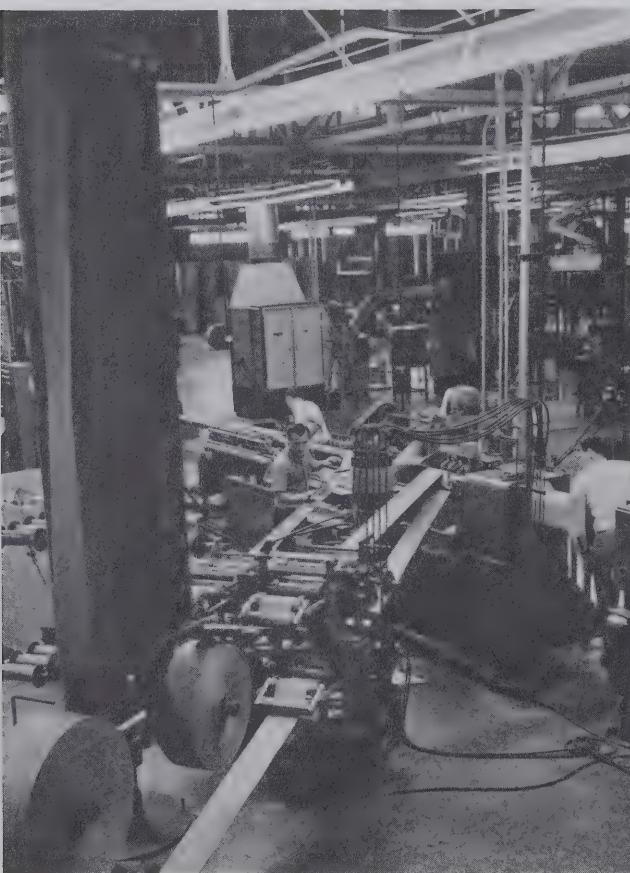
The Bell-Kilgour Division is an amalgamation of various paper converting and wholesale distributing companies and occupies an important place in the Canadian market as a single supplier of a broad range of packaging and other kindred products



Cross section of a fibre-foil can showing seam details.



The kraft body stock is slit into ribbons $7\frac{1}{2}$ inches wide and rewound into rolls.

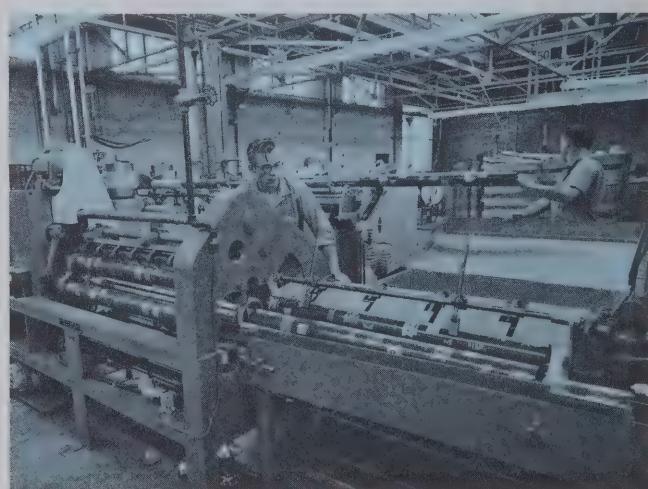


Winding the tubes for oil cans. Plain aluminum foil with a kraft backing is wound spirally on the mandrel. Then two layers of kraft body stock coated with adhesive. The top layer is printed aluminum foil.

which are used by almost every business or institutional establishment in the country. Due to the major undertaking involved in consolidation of product lines and outlets, it has been necessary to proceed most carefully. Now that this effort is substantially completed it is believed that the economies and market coverage achieved will, for the long term, provide continuing improvement in the position.

Introduction of new product items and modernization of manufacturing procedures are taking place on a planned basis.

The long tubes can be cut into "sticks" 7 cans long and then into single cans or the individual lengths may be gang-cut directly on the mandrel.



DOMTAR PULP & PAPER LIMITED

Total sales of Domtar Pulp & Paper Limited were up approximately 3% in comparison with the previous year. Operating profits were off 3% as a result of increased wages and employee benefits and price instability for a variety of products including pulp, boxboard and towelling. With prices firming late in 1963, this Company is expected to show a substantial increase in profits in 1964.

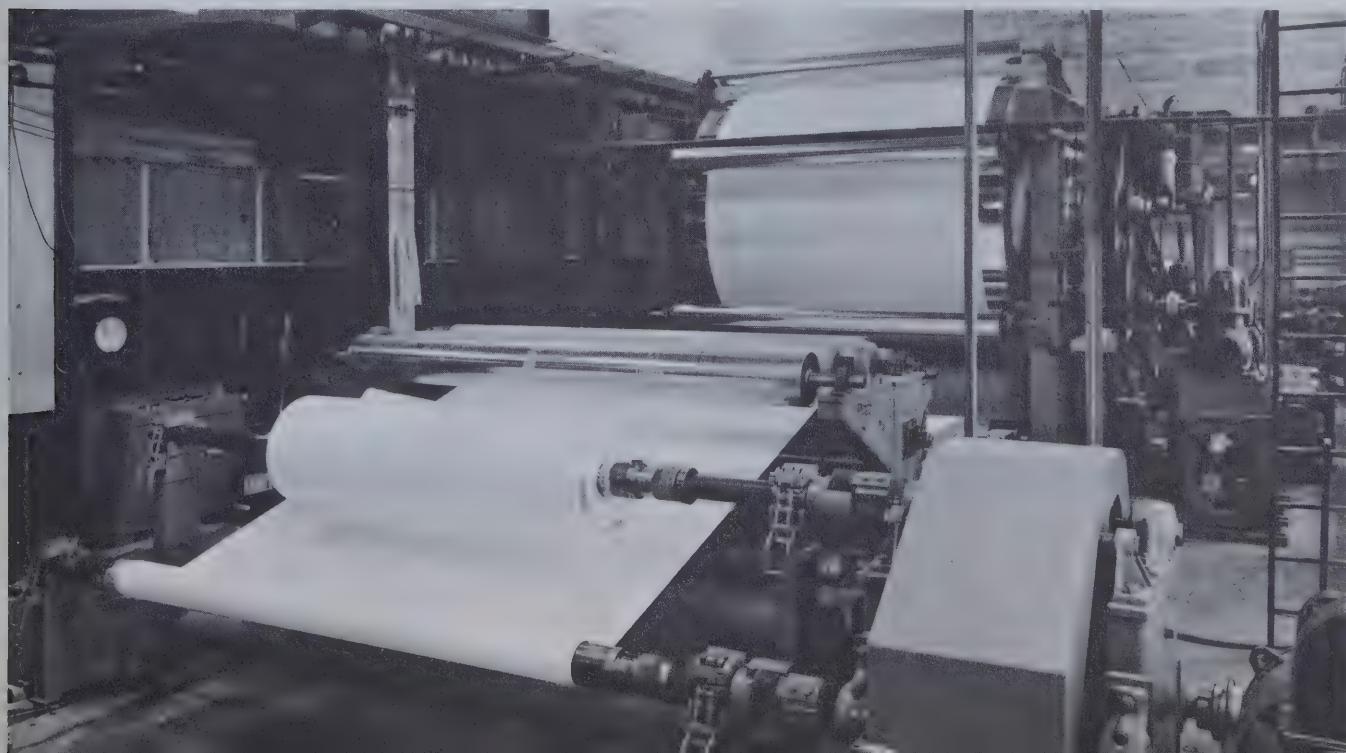
The fine paper business started the year strong and, after a period of weakness in the late Summer and Fall, has ended the year in a firm position. Total fine paper sales and operating profits show a substantial improvement for the year. Pulp sales continued to be healthy volume-wise and pulp facilities were operated throughout the year without curtailment. Prices were weak in the early part of the year. Alkaline pulp prices improved in the fourth

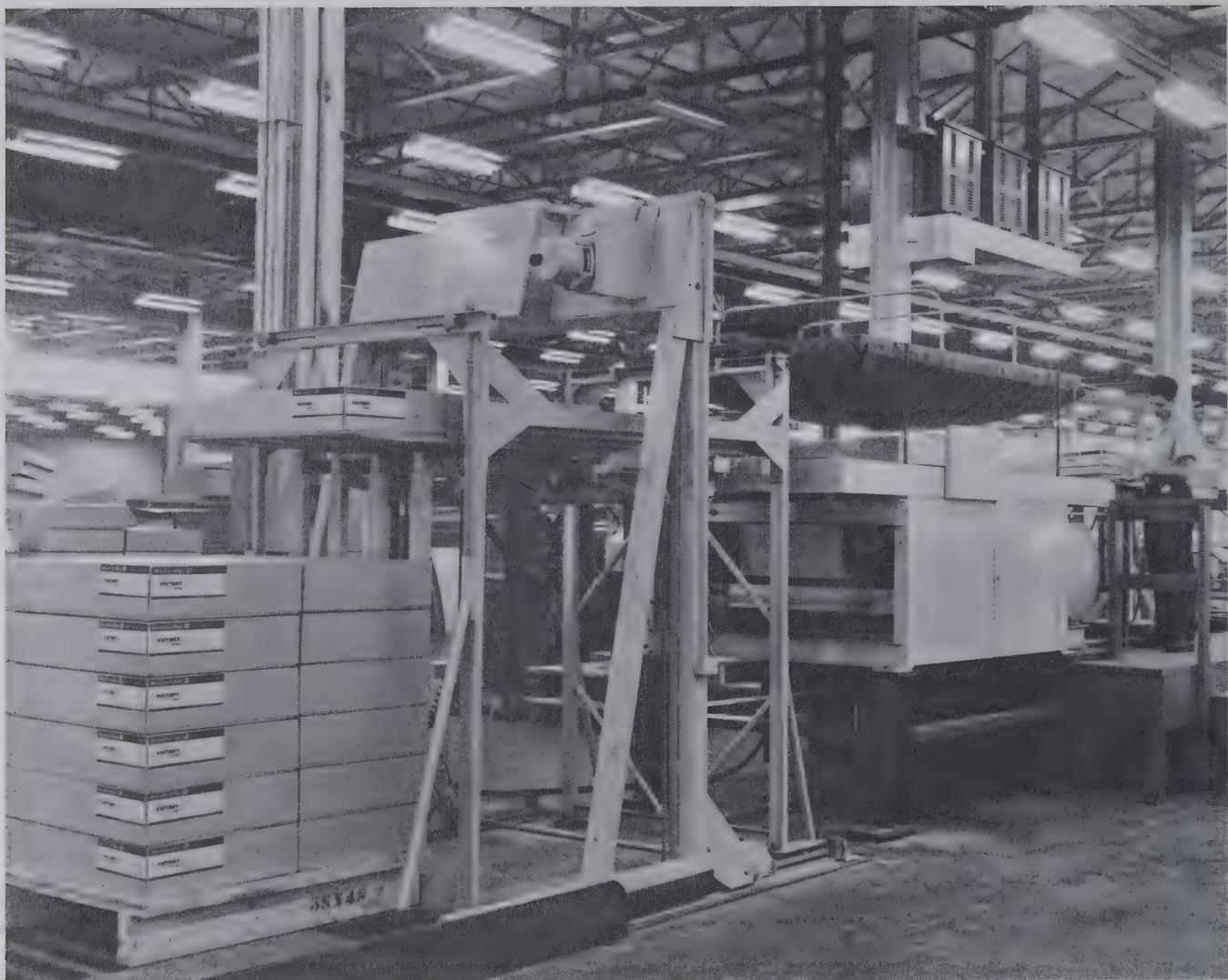
quarter and sulphite prices strengthened at year end. In the aggregate, trade pulp sales and profits for the year were slightly ahead of 1962 and further gains are anticipated for 1964.

As a result of improvement late in the year, total 1963 sales of kraft paper were slightly ahead of the previous year but operating profits showed a substantial decline. The total Canadian market in the unbleached kraft wrapping field showed no significant tonnage gain in 1963 and with the entry of a new major producer, the market has been highly competitive.

Boxboard sales were off about 3.6% in comparison with 1962 and operating profits were off about 25%.

Georgetown, Ontario: The new "Glosskote" coater installed in the coating mill of Domtar Pulp & Paper Limited, will help to fill the demand for this type of paper.





The total Canadian market for folding boxboard was down approximately 3½%, prices were unstable through the first three quarters and quality competition required substantial upgrading of product throughout the year. With prices stabilising late in 1963 and improved qualities well established, both sales and profits were showing improvement at year end. Substantially improved results are forecast in 1964.

The mill of The Hendon Paper Works Company Limited at Sunderland, England, which was acquired in December, 1962, was reorganized as Howard Smith Hendon Limited in January, 1963. As a result of a seriously depressed fine paper market in the United Kingdom throughout 1963, it has not, to date, made any significant contribution to earnings.

New carton sealing equipment has been installed in four of the five Howard Smith Division mills. The equipment replaces manual taping methods, provides neater carton at reduced cost.

However, British fine paper prices were strengthening at year end and substantially improved results are forecast for 1964.

Sales of Canadian-made papers in the United Kingdom through an associated operation — Samuel Jones-Howard Smith Limited — showed further substantial gains and this marketing organization has been strengthened by providing branch warehousing and distribution in Bristol, Manchester and Birmingham and will be further strengthened in Glasgow and London in 1964.

THE WOODLANDS DIVISION

The Woodlands Division is responsible for pulpwood procurement for all divisions of the company. Their responsibility includes the administration and management of approximately 22,000 sq. miles of woodlands, leased and freehold, the purchase of pulpwood and usable sawmill waste and delivery to the mills. The division employs approximately 505 full time and 2,712 seasonal employees. Annual pulpwood consumption is slightly over 1,600,000 cords.

Since World War II the harvesting and transportation of pulpwood has been subject to extreme cost pressures due to the very high labour component and the essential improvement in the accommodation and facilities for woods workers. The hand saw has given way to the chain saw, the primitive log shanty to modern camps with clean and comfortable sleeping quarters, showers, laundry, inside plumbing, T.V., radio and taped music. Meals are balanced, nutritious and appetizing.

The higher cost of labour and services, and the resulting increase in wood costs, has necessitated increased mechanization of operations and the construction and continued expansion of networks of all-weather, all-purpose roads. Woods operations, formerly seasonal, are now approaching a year-round basis, which permits lower wood inventories and reduced working capital and is substituting a reduced permanent work force for the large temporary seasonal force of the past.

Woodlands operations are carried out in accordance

Logs being towed from Nipigon across bay to Red Rock, Ontario, mill.



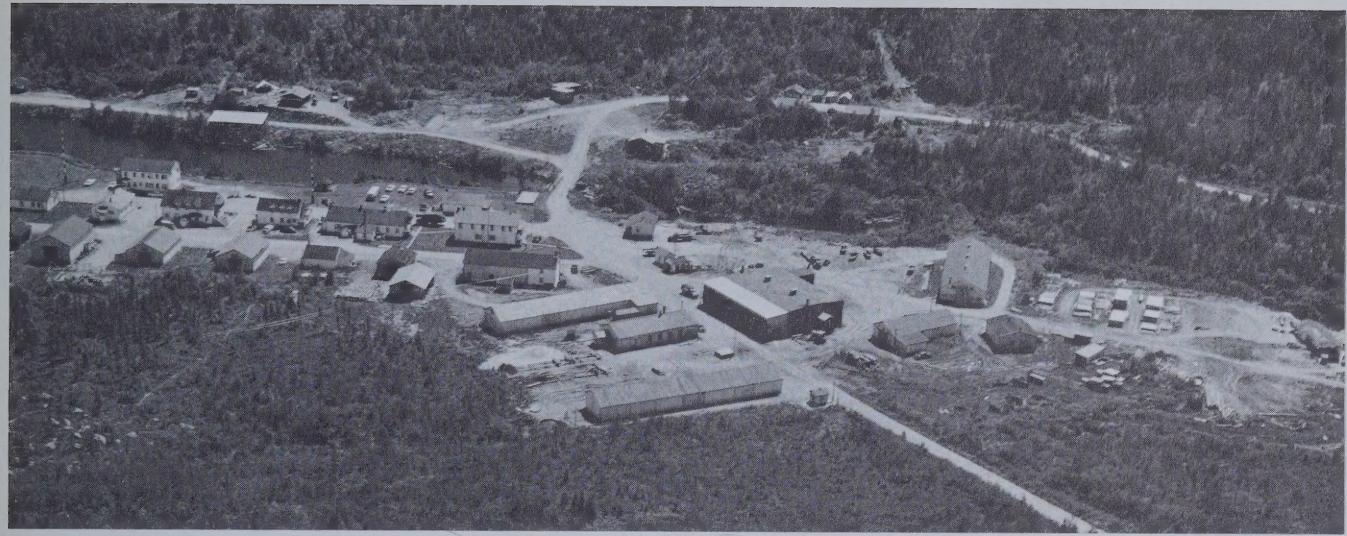
Les Loutres Depot 57 miles north of Dolbeau, Quebec, is an all-year round headquarters for woodlands operations. Here are housed stores, repair shop, a saw mill, forest protection and first aid stations. It also serves as a stop-over for men in transit. Permanent employees have own recreation club with television antennae.

Loading 16 foot pulpwood logs at Nipigon, Ontario, on tandem truck and trailer.



with sound forestry practise for sustained yield harvesting, and are subject to government approval in the case of operations on leased crown lands. Woodlands research includes the development of improved and mechanized cutting; de-barking and chipping in the bush; transport by pipe line; and mechanizing of other transport and wood-handling activities. In addition new pulping processes are extending the range of species suitable for pulping. While the primary interest of the Woodlands Divi-

sion is the continuous production of wood as an economic raw material, the Company supports the principle of multiple use of the forest and the use of crown land forests for recreational purposes. To facilitate access, Company roads are made available for public use subject to proper Government and Company control and to adequate supervision to ensure observance of forest laws and regulations and individual responsibility for care and behaviour in the forest.



Mechanical loaders at Nipigon, Ontario, eliminate back-breaking hard labour and speed up the job of loading.

TEN YEAR RECORD

PUBLISHED ACCOUNTS		1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Sales.....(Thousands/\$)		80,029	74,413	79,037	177,711	181,377	219,293	215,117	325,706	343,976	352,657
Operating Profits....."		8,204	10,159	11,711	27,750	27,760	34,965	34,503	56,459	57,944	57,403
Depreciation & Depletion....."		3,778	2,400	2,750	7,968	8,150	12,500	12,500	18,500	19,250	19,750
Provision for Income Tax....."		1,710	3,300	3,650	8,830	8,635	7,150	7,605	13,404	12,039	10,503
Net Profit for Year....."		1,875	3,802	4,915	6,561	7,304	11,231	10,079	18,799	20,717	20,832
Common Shares Outstanding.....		2,800,000	2,823,000	3,758,938	5,000,000	5,000,000	6,782,232	6,805,932	14,322,200	14,562,200	14,562,200
Earnings per Common Share	\$.56	\$1.24	\$1.23	\$1.25	\$1.40	\$1.61	\$1.43	\$1.29	\$1.40	\$1.41	
Dividends per Common Share.....	.40	.42½	.50	.50	.50	.60	.60	.80	.80	.80	
Capital Expenditures.....(Thousands/\$)		3,574	3,153	7,355	11,791	12,798	29,931	17,309	19,010	26,700	19,379
Fixed Assets — Net (After Accumulated Depreciation) .."		17,867	18,621	23,386	84,714	91,313	142,053	148,284	216,469	226,563	226,739
Funded Debt....."		21,425	20,261	18,127	32,430	45,006	43,469	56,036	100,738	111,100	107,131
Common Shareholders Equity....."		23,228	25,803	38,132	61,034	64,106	96,654	104,778	182,923	193,129	201,746
PULP AND PAPER PRODUCTION (PRO-FORMA)											
Newsprint.....(Tons)		435,563	508,938	545,809	534,665	456,223	462,330	490,194	477,081	476,531	489,140
Kraft Paper and Board....."		283,120	315,434	344,568	328,042	329,047	348,676	345,673	343,924	378,253	365,868
Fine Papers....."		99,730	102,403	113,444	109,559	115,294	119,283	131,335	138,647	150,399	157,370
Market Pulp....."		137,403	168,051	165,942	152,886	116,918	100,156	121,416	152,221	141,832	144,134
Total Pulp and Paper.....(Tons)		955,816	1,094,826	1,169,763	1,125,152	1,017,482	1,030,445	1,088,618	1,111,873	1,147,015	1,156,512

SALES BY PRODUCT TYPE

Pulp and Paper.....	(Thousands/\$).....	207,631	216,057	220,273
*Chemicals.....	".....	49,601	55,401	58,725
*Construction Materials.....	".....	68,474	72,518	73,659
Total Sales.....	(Thousands/\$).....	325,706	343,976	352,657

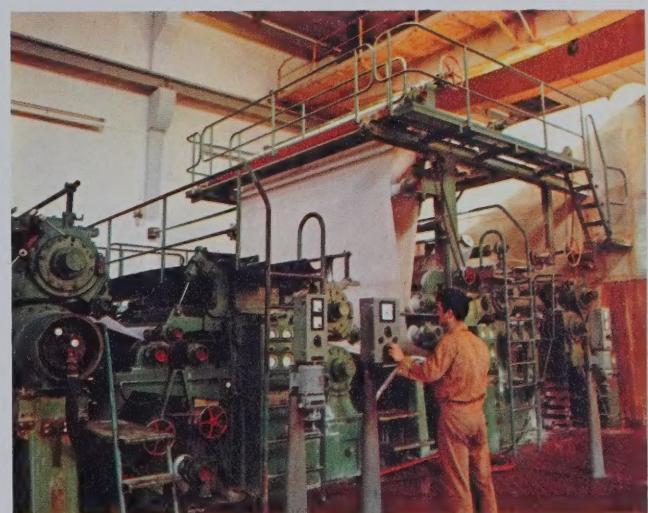
*N.B. The Chemical and Construction Material products are so numerous and varied that they do not lend themselves to unit comparisons except in voluminous detail. The sales dollar volume, therefore, becomes the only effective comparison. Prior to 1961 sales figures on a comparable basis are not available.



Illustrated on this page is the Cellulosa d'Italia pulp and paper mill at Chieti, Italy, in which Domtar International Limited, a wholly-owned subsidiary of your Company, has acquired a 49% interest. The mill was established in 1938 and started the production of pulp from straw in 1940. Manufacturing ceased three years later because of war damage to the plant and equipment.

In 1951 the first paper machine, 130 inches wide, was started up and in 1960 a second machine, 137 inches wide, was installed. Current production is approximately 12,000 tons of straw pulp and 35,000 tons of writing and offset papers. The mill employs about 750 persons.

An extensive expansion program is currently being developed for this modern mill. A third paper machine, 163 inches wide, has been ordered, with start-up scheduled for 1966. This increased capacity is expected to bring annual paper production up to 50,000-60,000 metric tons.





The "Javex" family of household and home-laundry products has recently been expanded. Many of them are advertised and distributed nationally. Look for "Javex" products on your grocer's shelves. They are Canada's finest.